NOVEMBER 2020

Corporate Finance Disclosure Report

ASC
Alberta Securities Commission

TABLE OF CONTENTS

Introductory remarks 3

1. Review process 4

2. Management’s Discussion & Analysis 5
   Overview 5
   A. Discussion of operations – variance analysis 5
   B. Liquidity and capital resources 7
   C. Transactions between related parties 11
   D. Forward-looking information 12
   E. Non-GAAP financial measures 15
   F. Other COVID-19 disclosure considerations 19

3. Other areas 20
   A. Unbalanced and promotional disclosures 20
   B. Disclosure of key judgements and estimates 21
   C. Mergers and acquisitions 23

4. Important recent staff notices and initiatives 25

5. Resources available 28

6. Contact personnel and presentation 29

Glossary of terms 30

Accurate, timely and reliable reporting builds investor confidence.

The Alberta Securities Commission (**ASC**) is pleased to provide market participants with its annual Corporate Finance Disclosure Report (the **Report**).

This is the 30th year of distributing the Report, with the continuing goal of supporting Alberta reporting issuers (**RIs**) to maintain and improve their financial reporting. Accurate, timely and reliable reporting builds investor confidence and is a cornerstone of a thriving and efficient capital market.

The past year has presented some of the most significant challenges seen by business in recent memory with companies being affected on multiple fronts. We recognize these exceptional challenges and together with our colleagues across the Canadian Securities Administrators (**CSA**) we have strived to be responsive to these challenges by providing timely relief. While this was appropriate and necessary, the vast majority of RIs met their reporting requirements in the regular timeframe which is a testament to RIs and their advisors and the acknowledgement of the importance of getting information to market on a timely basis. We appreciate this commitment.

This year we chose to focus our report on the Management Discussion & Analysis (**MD&A**), which is one of the primary disclosure tools that RIs have to communicate their story and provide investors insight into their business in a way that the financial statements can't completely do on their own. The MD&A is meant to complement an RI's financial statements and provides companies an opportunity to talk about how and why they performed as they did during the reporting period and how they expect they will perform in the future.

Our objective with this Report is to provide useful and straightforward guidance in certain key areas of the MD&A. These topics have been discussed in past reports; however, this year the Report is focused on providing illustrative examples that highlight best disclosure practices. We have noted that several RIs in Alberta are leaders in their MD&A disclosure, the examples provided in the Report are modelled after the disclosure provided by those entities.

Going forward, we will continue to monitor how COVID-19 has affected an RI's business both on a short-term basis, but also as it relates to long-term prospects and key estimates. We will also be focusing on climate change-related disclosure in relation to 2020 year-ends. You may recall that in August 2019, the CSA issued CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks* to provide guidance.

We welcome opportunities to connect with Alberta market participants. Stay tuned for more information on a presentation to be held in mid January. For RI's having questions before that, or throughout your reporting season, we encourage you to contact us directly.

Please feel free to contact me or my colleagues with any feedback or questions.

Tom Graham
Director, Corporate Finance
403.297.5355
tom.graham@asc.ca

Each year the ASC issues four reports: the annual report, the Alberta capital markets report, the oil and gas review report and the corporate finance disclosure report. These reports are created to provide timely and relevant information for market participants and reporting issuers. They can be found at albertasecurities.com.

1. Review process

The ASC continuous disclosure (**CD**) review program continues to be a key priority for the Corporate Finance division. We conduct CD reviews to ensure that RIs are in compliance with regulatory requirements and to provide direct feedback to RIs on how to improve their disclosure. Our program involves two types of CD reviews: full CD reviews and issue-oriented reviews (**IORs**).

The scope of our full CD reviews is comprehensive and will usually include an assessment of an RI's financial reporting and other CD filings for its most recently completed annual and interim periods. In addition to reviewing the documents an RI is required to file under securities legislation, we may also review and assess voluntary disclosures such as websites, social media platforms, webcasts and investor materials.

An IOR is a more limited review focused on particular issues, requirements or types of disclosure. IORs may be undertaken in furtherance of a CSA or ASC policy project, or to address a specific area of concern. We conduct some IORs jointly with other members of the CSA, while other IORs are limited to Alberta.

Our reviews often identify deficiencies in disclosure which may result in ASC staff requesting that RIs make prospective changes in their disclosure practices, file un-filed documents or re-file certain documents. We typically request that an RI make changes in its future disclosure in circumstances where we conclude that a deficiency is not sufficiently serious or misleading to warrant a re-filing of an RI's previously filed documents. ASC staff request the filing of un-filed documents or re-filing of certain documents when we identify un-filed documents which are required to be filed under securities legislation, or when previously filed documents contain deficiencies requiring immediate correction. In more serious instances our reviews may result in an RI being noted in default of securities legislation or cease-traded. Deficiencies may also be referred to the ASC's Enforcement division for further investigation.

WHAT SHOULD I DO IF MY RI IS SELECTED FOR A CD REVIEW?

- Reach out to ASC staff through phone or email if a comment is unclear or you require additional information.
- Provide copies of all correspondence with the ASC to the RI's CFO, CEO and audit committee.
- Consider seeking advice from your legal and/or accounting advisors.
- Provide thorough and specific responses, referencing IFRS and the *Securities Act* (Alberta) where relevant.
- If you require more time to provide a response, request an extension of the response deadline prior to the deadline, and explain why the extension is needed.

2. Management's Discussion & Analysis

OVERVIEW

The emergence of the novel coronavirus (**COVID-19**) pandemic earlier this year resulted in sudden and profound changes for most RIs and the way they do business. In addition to COVID-19, Alberta's RIs continue to face a challenging business environment, including volatility in the capital markets and low commodity prices. As such, it is more important than ever for RIs to assist investors in understanding their business and financial condition.

The ASC recognizes the challenges COVID-19 has presented to RIs seeking to comply with their CD requirements. Overall, RIs have been responsive in these uncertain times providing timely and clear communication to investors. To further assist RIs in this regard, ASC staff have identified several areas where we see opportunity for improvement in the MD&A disclosures, including: discussion of operations, liquidity and capital resources, transactions between related parties, forward-looking information (**FLI**) and non-GAAP measures (**NGMs**).

To exemplify the disclosure improvements the ASC is seeking, this Report includes a series of disclosure illustrations relating to one company, referred to as "SampleCo". These illustrations have been modelled from real-life examples encountered by ASC staff through our CD review program. Although SampleCo is a Canadian energy company involved in the exploration and production of oil and gas in Alberta, the concepts can be applied across all industries. The illustration is not meant to address all disclosure requirements of the MD&A.

A. DISCUSSION OF OPERATIONS – VARIANCE ANALYSIS

The discussion of operations is intended to provide an in-depth perspective of the most recently completed financial period. In providing its analysis, it is useful for an RI to identify and discuss its business drivers (e.g. production, units sold, square footage, occupancy rates, number of subscribers, etc.). When an RI provides period-over-period variance analysis, it is important to quantify key changes and provide discussion which clearly explains the reasons for the change. We continue to identify areas in which RIs' discussion and analysis of significant variances needs to improve, including the following:

PRESENTATION

The use of tables in the MD&A to identify period-over-period numerical variances and percentage changes of financial statement line items and performance metrics is useful; however, the key to an effective MD&A is supporting analysis and commentary. The discussion should give insight into the RI's operations and economic environment; simply stating the financial statement amounts and calculating the difference does not provide adequate insight to an investor about the RI's operations. The analysis and commentary should also be detailed enough to allow an investor to assess whether the current period results are likely to be indicative of future performance.

REVENUE VARIANCE

When discussing revenue variances, RIs should give a full discussion and analysis of the elements affecting revenue drivers, such as price and volume, including any changes in such variables. Offsetting changes should be identified to give insight into the results. In the illustration below, SampleCo's average realized price was impacted by offsetting positive and negative pricing movements of different commodity price benchmarks. When discussing the changes in an RI's financial condition and results, it is important to include an analysis of the effect on operations of any acquisition, disposition, write-off, abandonment or other similar transaction. In the illustration below, the decrease in volumes was partially attributed to a disposition by SampleCo of producing assets during the year.

COST VARIANCE

When discussing cost variances, providing a meaningful analysis and discussion of the material components of the costs and identifying offsetting aspects will provide investors with a better understanding of operations.

Considering the current economic environment, RIs may implement significant cost-savings programs that include decreasing their labour costs (e.g., staff layoffs and salary reductions), shutting-in uneconomic wells, closing unprofitable retail locations and reducing discretionary expenses. This will be relevant information to disclose generally, but RIs should also include appropriately detailed explanations in their analyses. In the illustration below, SampleCo reports a decrease in its general and administrative expenses which includes severance costs and the receipt of a government subsidy.

ILLUSTRATION

In March 2020, the World Health Organization declared coronavirus disease ("COVID-19") a global pandemic. As at the date of this MD&A, the scale to which COVID-19 may continue to impact us is uncertain, as the impact to the global economy, commodity prices, results of operations and financial conditions depend on the severity and duration of the pandemic.

The following significant items further impacted our financial and operational results during the year:

- Revenues decreased 14% in 2020 to $136.5 million (2019 - $158.1 million). The decrease is a result of both a lower average realized price of $14.12/boe (2019 - $14.96/boe) and a decrease in average daily production to 26,476 boe/d (2019 - 28,948 boe/d).
- The realized pricing on natural gas volumes during the year was positively impacted by the 30% increase in the AECO daily benchmark as compared to 2019. The higher prices are mainly due to improved egress in Alberta and the ability to deliver natural gas volumes into storage. Whereas, the average benchmarks for WTI crude decreased by 33%, as compared to 2019, due to demand decreases from the world population's response to COVID-19 and OPEC+ supply increases. Considering our product mix, the net effect on our average realized price in 2020 was a 6% decrease to $14.12/boe (2019 - $14.96/boe).
- Average daily production decreased by 2,472 boe/d due to: the disposal of a property in central Alberta (1,824 boe/d); natural production declines (1,070 boe/d); and the shut-in of uneconomic wells (500 boe/d). These decreases were partially offset by increased production (922 boe/d) resulting from our 2020 drilling program.
- Operating expenses for the year ended December 31, 2020 decreased by 3% to $84.5 million (2019 - $87.3 million). The expenses were lower due to: $5.8 million of operating expenses foregone as a result of the disposal of our properties in central Alberta; a $2.1 million negotiated reduction in processing fees at the third-party processing plant in southern Alberta; $1.6 million of costs foregone as a result of shutting-in economic wells; and $0.6 million saved through operational efficiencies, partially offset by a $7.2 million increase in routine repairs and maintenance expenses, and well work-over costs.
- General and administrative expenses for the year ended December 31, 2020 decreased by 9% to $6.4 million (2019 - $7.0 million). To alleviate the financial burden imposed by COVID-19, we applied for and received funding from the Federal Government of Canada through the Canada Emergency Wage Subsidy Program ("CEWS"). During the year, we received a total of $0.5 million (2019 - $nil), reducing general and administrative expenses. We also lowered costs by reducing our staffing levels to align with our lower level of planned capital spending and to improve overall cost efficiencies; however, this resulted in severance costs of $0.8 million being incurred.

QUESTIONS TO ASK

- Have reasons for period over period variances been quantified and are they entity specific?
- When explaining a variance, have offsetting changes been identified, measured and discussed?
- Have variances in operating results different than expectations been disclosed and explained?
- Has a clear discussion of business drivers (i.e. the factors driving revenues and expenses) been provided in order to provide a fair assessment of operating results to investors?
- Has the impact of recent acquisitions or dispositions been analyzed and clearly explained?
- Is sufficient information provided for an investor to assess if past performance is indicative of future performance?

COVID-19 DISCLOSURE CONSIDERATION

Disclosure of COVID-19's impact should be entity-specific, transparent, and presented alongside all other factors contributing to period-over-period variances. An RI should not incorrectly identify COVID-19 as the sole reason for any decrease in revenues or increased expenses when other factors had an effect.

Some key questions to consider when assessing impacts of COVID-19:

- How has demand for products and services been impacted?
- How have costs, including changes in prices, been impacted?
- What is the overall strategy or changes to strategies, including cost saving measures, restructuring initiatives or a realignment of operational and financial resources?
- How has the RI addressed workplace health and safety? Have these costs been quantified?
- Have the RI's customers, supply chain or distribution channels been affected?
- What is the impact of any government support or insurance recoveries?

B. LIQUIDITY AND CAPITAL RESOURCES

Given the challenging business environment, many RIs continue to grapple with the burden of reduced operating cash flows, interest payments, maturing debt and a reduction in the availability of capital from public and/or private markets. Liquidity risk and disclosure of the RI's specific risk management plans moving forward will be important to investors. Meaningful analysis of an RI's liquidity and capital resources is particularly important during challenging economic times. We encourage a greater depth of discussion from those RIs that have, or are more likely to have, working capital deficiencies, default on credit facilities, liquidity issues and/or difficulty accessing debt and equity markets for additional financing.

WORKING CAPITAL DEFICIENCIES

The discussion of an RI's liquidity should clearly analyze the RI's ability to meet its cash requirements over the short and long term. This includes examining commitments, capital expenditures and working capital requirements. Many RIs in the energy sector have been impacted by low commodity prices and volatile capital markets. Other industries have faced similar challenges, resulting in an increased number of RIs facing working capital deficiencies. When a working capital deficiency exists, an RI should clearly disclose its plan for addressing the deficiency by contemplating current commitments for capital expenditures, planned capital expenditure for future growth, ability to make or continue to make dividend payments, reduction in discretionary operating expenses, planned inflows from a financing activity such as a draw on a credit facility or equity issuance and timing for debt maturities. An RI should explain to investors how it will prioritize its spending, what significant obligations it has maturing in the short term, and the period of time it has projected that it will be able to fund its operations. In the below illustration, SampleCo addresses its working capital deficiency.

ILLUSTRATION

Our working capital is:

	As at	
	December 31, 2020	December 31, 2019
Working capital[1]	(18,553)	13,201

Working capital varies primarily due to: the timing of the cash realization of our current assets and current liabilities, the current level of business activity including the capital spending program, commodity price volatility, and seasonal fluctuations. The working capital deficiency is a result of the $22.5 million Credit Facility A being recognized as a current liability in the current year, as it is scheduled to come due on October 1, 2021 (see "Debt Instruments" discussion below). We expect to improve our working capital deficiency in 2021[2] by:

- negotiating a renewal and extension of Credit Facility A;
- reducing the capital spending program to $12 million (2020 - $80.8 million); and
- anticipating an adjusted funds flow[2,3] of $30-$35 million (2020 - $30.0 million).

By carrying out the above plans, we expect to finance our working capital deficiency and our ongoing working capital requirements.

(1) Working capital is defined as current assets less current liabilities.

(2) Forward-looking information. Refer to the section entitled "Forward-Looking Information" contained within this MD&A for material assumptions and risk factors.

(3) Non-GAAP financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Financial Measures" contained within this MD&A.

CAPITAL RESOURCES

The discussion of an RI's capital resources should clearly analyze the RI's cash requirements to sustain operations and meet anticipated growth, as well as how the RI intends to finance these identified cash requirements.

ASC staff note that there is no prescribed method of calculating what an RI's "capital resources" are and there are varying approaches in practice. Whatever the RI's view on its capital resources may be, staff encourage the avoidance of boilerplate disclosure and focussing on entity-specific disclosure.

Generic, aspirational statements about an RI's sources of financing, such as a listing of all potential fundraising methods, may be misleading if these methods are not currently available to the RI or a transaction is not reasonably considered to actually occur. If applicable, current or expected difficulties accessing debt or equity markets should be discussed. In the illustration below, SampleCo outlines its capital spending objectives and sources of funding for the upcoming year, followed by its capital resources and how they are managed.

ILLUSTRATION

SOURCES OF FUNDS

We monitor our capital structure and make adjustments according to market conditions and to meet our objectives given the current outlook of the business and industry in general. Our capital structure is composed of working capital, long-term debt and share capital. We may manage our capital structure by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing through bank loans, refinancing current debt, issuing other financial or equity-based instruments, or adjusting capital spending.

We expect to finance our working capital requirements and capital spending program through cash flows from operations and draw-downs from our credit facilities. Our continuing operations are dependent upon our ability to continue to raise adequate financing in the future.

USES OF FUNDS

With the construction of the Foothills Alberta gas plant complete, we will shift our spending away from growing production and focus on sustaining existing assets. We will reduce our capital spending program for the year 2021 to $12.0 million (2020 - $80.8 million) and focus on drilling and completing three wells and some minor maintenance activities.

RISKS

An RI should describe and analyse risks associated with financial instruments, including when there is a significant risk of default or arrears on debt payments or covenants. If an RI is close to breaching a covenant, waiting to disclose this risk until after a covenant has actually been breached is not timely or useful and would likely have a materially adverse impact on investors. ASC staff consider it best practice to provide a clear description of each financial covenant and present the actual covenant as compared to the minimum/maximum benchmark. An RI should provide commentary to allow an investor to make an assessment of the present risks relating to a covenant breach. In the illustration below, SampleCo identifies a covenant breach, the reasons for the covenant breach, and how it plans to correct the breach.

ILLUSTRATION

DEBT INSTRUMENTS

Our borrowing capacity is $100 million, of which $75 million has been drawn as at December 31, 2020.

We are subject to the following covenants as defined in both credit facility agreements:

Financial covenant	Limit	December 31, 2020	December 31, 2019
Net Debt[1] to Adjusted EBITDA[1]	Less than 3.0	2.3	0.7
Total Debt to Equity	Less than 2.0	2.1	1.1

(1) The financial covenants include financial measures defined within the credit facility agreement that are not defined under IFRS. Refer to the section entitled "Non-GAAP Measures" contained within this MD&A for the definition of these measures.

We were not in compliance with the Total Debt to Equity covenant contained in our Credit Facility A and Credit Facility B agreements as at December 31, 2020. As a result of reduced cash flows from operations, we increased our reliance on the credit facilities during the year. We forecasted that we would not be in compliance with this financial ratio and secured a waiver prior to December 31, 2020. Under the terms of the waiver received, any funded debt subject to this covenant that was due after December 31, 2021 was classified as long-term. All existing credit facilities are subject to the same financial covenants.

Credit Facility A matures on October 1, 2021 and as a result has been classified as current. One of the terms of the waiver for the covenant ratio noted above is that we are no longer able to extend the credit facility agreement. We remain in active discussions with our lender to restructure the credit facility agreement, including the extension of the maturity date and amendments to the financial covenants. We are optimistic that these negotiations will be successful and hope to finalize terms sometime prior to March 31, 2021.

QUESTIONS TO ASK

The discussions of liquidity and capital resources are inter-related as they address cash requirements and sources of funding, respectively. Effective disclosure may integrate the requirements of each. When reviewing the completeness of their liquidity and capital resources disclosure in the MD&A, RIs should ask:

- Have we disclosed all of our cash requirements, both growth and sustaining?
- If applicable, have we discussed our current and/or forecasted cash shortfall and what impact this will have on our business?
- Have any capital projects been deferred? Have the impacts of any changes in plans been explained?
- Have we had to change our dividend payments or reduce or suspend share repurchase programs?
- Have we disclosed the trends, fluctuations and risks associated with our cash requirements and funding, as well as our plan to manage these?
- Have the risks or actual events of borrowing base redeterminations and/or covenant breaches been identified, with any mitigating plans explained?

COVID-19 DISCLOSURE CONSIDERATION

COVID-19 will have a significant impact on the capital and liquidity resources of some RIs. When assessing the effects of COVID-19 on your disclosures, key items to consider include:

- Has the status, timing, and budget for planned projects been directly impacted by COVID-19 and if so, how?
- If a decrease in demand can be attributed to COVID-19, describe the impact to cash flows from operations and impact to future cash flows.
- Is there increased counterparty risk (A/R collection)?
- Have you accessed any subsidies and/or funding from government programs? If so, discuss the terms and conditions of the assistance received and its impact on the RIs liquidity assessment.

C. TRANSACTIONS BETWEEN RELATED PARTIES

Related party transactions are a normal feature of commerce and business as RIs frequently carry on parts of their operations through subsidiaries, joint ventures and associates. Identifying transactions between related parties provides useful information to investors as it draws attention to the possibility that the transaction amount or terms may have been affected by the relationship between the parties. IAS 24 *Related Party Disclosures* requires disclosure of both the nature of the related party relationship as well as information about the transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

We often see RIs including the same disclosure on related parties in their MD&A as what is included in their financial statements, despite the fact that the disclosure requirements for these two documents differ. While section 1.9 of Form 51-102F1 requires RIs to discuss all transactions between related parties as defined by the RIs GAAP, we often find that RIs do not provide sufficient quantitative and qualitative information for investors to understand the business purpose and economic substance of the transaction between related parties. In disclosing transactions between related parties in the MD&A, an RI should discuss:

- ***the relationship and identity of the related person or entities***
  The relationship and identity of the related person or entity should be clearly disclosed. In the below illustration, as the company has several members comprising the Board of Directors, the name of each individual has been provided. However, where the related party can be easily identified through their position (i.e., CEO,CFO) the position may be used to identify the related party.
- ***the business purpose of the transaction***
  For each transaction in the below illustration, the business purpose and the fact that it was carried out as part of the normal course of business is clearly disclosed.
- ***the recorded amount of the transaction and describe the measurement basis used***
  The measurement basis used for the transaction depends on the nature of the transaction; however, if the RI discloses that the transaction was entered into at market terms, management should ensure they have sufficient evidence to support this. In the below illustration, a promissory note is issued to the CEO with the interest rate based on market rates. When compared to the interest rate on the company's credit facilities an investor can determine that the interest rate applied to the promissory note is reasonable.
- ***any ongoing contractual or other commitments resulting from the transaction***
  If the transaction involves a contract or agreement that leads to an ongoing contractual or other commitment, the terms of the contract or agreement must be disclosed. In the below illustration, the company entered into a sub-lease agreement with a related party and the business purpose and terms of the sub-lease agreement have been disclosed.

ILLUSTRATION

During the year ended December 31, 2020 we entered into the following transactions with related parties:

On March 15, 2020, we issued an $8.0 million subordinated promissory note to our Chief Executive Officer. The purpose of the loan is to finance our day-to-day operations. This Related Party Note matures on March 15, 2025, bears interest at 5.0% per annum and is payable monthly. The Related Party Note is secured by a $8.0 million floating charge debenture over all of our assets and is subordinated to any and all claims in favor of the holder of the term debt. Interest paid on the Related Party Note for the year ended December 31, 2020 was $0.3 million (December 31, 2019 - $nil) and was carried out under the normal course of business and at market rates.

On June 20, 2020, we sold a property for total consideration of $3.1 million to Concord Inc., an entity jointly controlled by our Chief Financial Officer and by Ms. Grace Lee, a member of our Board of Directors. The purchase price was determined based on a third party valuation report completed for the purposes of the transaction. The transaction resulted in a loss on disposal of assets held for sale of $1.7 million and was carried out under market terms and conditions.

On November 1, 2020, we entered into a 10 year fixed rate lease for office space. Concurrently, we entered into a sub-lease for 50% of our office space with Wilson and Co., a company owned and controlled by Mr. Jack Wilson, a member of our Board of Directors. The sub-lease is for five years and at a fixed rate that matches the payments under the head lease and is under the normal course of business.

PRACTICE TIP

Other items that RIs should consider are:

- For non-cash transactions with related parties where RIs determine the transaction price by measuring the consideration received at fair value, disclosure of the measurement basis should include the valuation technique management used to determine the fair value, as well as the assumptions and judgements made to determine the exchange amount.
- RIs should consider if their related party transaction falls within the scope of MI 61-101 *Protection of Minority Security Holders in Special Transactions* (**MI 61-101**) and is subject to the requirements of that instrument.
- RIs should consider implementing a comprehensive process for identifying and dealing with related party transactions and conflicts of interest, including conflicts of the type regulated by MI 61-101, and disclose details of that process.

D. FORWARD-LOOKING INFORMATION

FLI is disclosure about possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action. FLI includes two sub-categories when the information presented pertains to prospective financial performance, financial position or cash flows that are presented as a forecast or a projection: (i) future-oriented financial information (**FOFI**) and (ii) financial outlooks. The difference between these sub-categories is that FOFI is presented in the format of historical financial statements, whereas financial outlooks are not. The disclosure of FLI is subject to the requirements under Parts 4A, 4B and section 5.8 of NI 51-102, irrespective of where FLI is located within a document or the nature of the document in which FLI is disclosed.

RIs use FLI to enhance transparency and inform investors of their present intentions for their future operations and performance. Outside of the MD&A, FLI is commonly disclosed in news releases, prospectuses, social media and investor presentations. We often find that the requirements under NI 51-102 are neglected when FLI is disclosed outside of the MD&A. Specifically, we have identified the following six disclosure areas requiring improvement:

Area of Improvement	How to Improve Disclosure
Clear identification of FLI	In addition to including cautionary language identifying the existence of FLI in the document, RIs should clearly identify FLI when it occurs in the document. Further, when the cautionary language cannot be disclosed within close proximity to the required FLI disclosure, a cross-reference should be provided. The below illustration demonstrates how an RI can clearly identify FLI statements.
Disclosure of material risk factors that could cause actual results to differ materially from the FLI	It is not sufficient to refer investors to the “risk factors” section of the MD&A and provide boilerplate disclosure. Risk factors should be entity-specific and comprehensive. The below illustration demonstrates how the risk factors must be in sufficient detail for investors to assess the information.
Disclosure of material factors or assumptions used to develop FLI	Assumptions should be reasonable and entity-specific. Whenever possible, assumptions should be quantified, as this provides valuable information to investors. Specific disclosure with respect to these assumptions will enable investors to understand the FLI and to follow the progress in subsequent reporting periods. The below illustration demonstrates how an RI can clearly disclose relevant and specific material risk factors and assumptions through the use of a table.
Updating previously disclosed FLI	When events and circumstances occur that impact previously reported FLI, disclose them along with the updated FLI. Simply providing an update of previously disclosed FLI without also disclosing the data that relates to the underlying factors and assumptions provides no insight on why and how the target or guidance has changed. As seen in the below illustration, the RI discloses the events that occurred during the period and the impact they had on the original guidance. Updated assumptions and risks are also included.
Comparison to actual results	While we have seen an increase in FLI disclosure, we have noticed that RIs are forgetting to provide a comparison of actual results to previously disclosed FLI. A comparison should be included in the MD&A, including a qualitative and quantitative explanation of material differences.
Withdrawal of previously disclosed material FLI	It is not sufficient to merely cease reporting a specific FLI statement. Instead RIs are required to disclose in the MD&A the decision to withdraw previously disclosed FLI, along with a discussion of the events, circumstances and assumptions that are no longer valid.

ILLUSTRATION

Given the decrease in demand and price for commodities, we have lowered our range for our 2021 production volumes to between 28,000 boe/d and 29,000 boe/d (previous guidance was between 29,000 boe/d and 30,000 boe/d). As a result of this change, we have also lowered our adjusted funds flow[1] guidance to between $30 – $35 million (previous adjusted funds flow[1] guidance was between $35 – $40 million).

The following table outlines certain significant forward-looking statements contained in this MD&A, including the updates noted above, as of the date of this MD&A. The disclosure below is intended to provide investors with the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

2021 Annual Guidance	Assumptions	Risk Factors
Adjusted funds flow[1] of $30 – $35 million	Dependent on achieving projected production volumes of between 28,000 boe/d and 29,000 boe/d, completion of budgeted drilling program, no pipeline outages, realizing forecasted average commodity prices of: WTI USD $44.00/bbl and AECO $2.90/mcf. Royalty, Operating and G&A expenses to remain within our historical per boe norms.	Well performance, success of our 2021 capital program, unscheduled maintenance shut downs at the Foothills Alberta gas plant, pipeline capacity and access, toll increases, WTI oil prices, AECO gas prices.
Total debt of $70 – $75 million	Dependent upon achieving 2021 adjusted funds flow of $30 – $35 million (see assumptions above), 2021 capital program spend of $12 million, repayment of debt.	Possible breach of financial covenants and same risks as adjusted funds flow, as described above.

In 2021 we will shift our spending away from growing production and focus on sustaining existing assets and lowering debt. We intend to use working capital, the credit facilities and the anticipated cash flow from operating activities in 2021 to finance ongoing working capital requirements and our capital spending program, as referred to in the capital resources and liquidity section above. This forward-looking statement is based on our belief that our access to cash will exceed our expected requirements.

(1) Non-GAAP financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP Financial Measures" contained within this MD&A.

PRACTICE TIPS

Other items that RIs should consider are:

- Management should exercise judgement when determining whether information is material; however, we generally consider FOFI and financial outlooks to be material.
- Ensure that there is a reasonable basis for the FLI and that it is limited to a period of time for which information can be reasonably estimated.
- NGMs disclosed on a forward-looking basis are subject to both the guidance in CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* (**SN 52-306**) and the requirements of Parts 4A, 4B and section 5.8 of NI 51-102.
- RIs should include a step in their disclosure review process to ensure that material FLI included in voluntary disclosure documents is also included as part of their regulatory filings.

COVID-19 DISCLOSURE CONSIDERATION

Given the uncertainty due to COVID-19, RIs should consider whether there remains a reasonable basis for previously announced FLI or FLI to be disclosed in prospective CD filings. In addition to updating previously disclosed FLI (as discussed above), RIs may have to consider withdrawing previously published guidance and financial outlooks in the event that these outlooks can no longer be supported by reasonable assumptions and there is no longer a reasonable basis for the achievement, or accurate updating, of conclusions, forecasts or projections in the FLI.

E. NON-GAAP FINANCIAL MEASURES

We continue to see an upward trend in the use of NGMs in MD&A as well as in news releases, prospectuses, social media and investor presentations. Many of the NGMs identified are derived from profit or loss, as determined under an RIs GAAP (**GAAP Measure**) and, by exclusion/inclusion of selected items, may present a more positive picture of financial performance. As financial statements are prepared using a standardized accounting framework (i.e., IFRS), the use of NGMs may mislead investors if they are not accompanied by the appropriate disclosures, as outlined in SN 52-306.

We continue to monitor this area, although we have seen some improvements in the disclosure of NGMs. To ensure an RI provides disclosure in compliance with SN 52-306, specific attention should be given to the following areas:

IDENTIFICATION

In addition to identifying an NGM as such, an RI is required to explicitly state that the NGM does not have a standardized meaning under its GAAP and therefore may not be comparable to similar measures presented by other RIs. It may be misleading to present an NGM without labeling the NGM properly and without identifying it as an NGM. Throughout the MD&A illustration in this Report, NGMs have been clearly identified and the required disclaimer provided.

MD&As typically have an NGM section where RIs provide the disclosures required under SN 52-306. When an NGM appears in the MD&A a reference is provided to this disclosure. When NGMs are disclosed outside of the MD&A, the disclosure requirements of SN 52-306 are also required, it is not sufficient to simply provide a reference to the disclosures in the most recent MD&A.

PROMINENCE

We continue to observe NGMs being presented with undue prominence in comparison to the corresponding GAAP Measure. When assessing whether NGMs have been presented with too much prominence an RI should consider both its narrative discussion and charts and/or tables and consider if they are heavily or solely focused on NGMs.

LABELLING

The name (label) of the NGM should be presented in a way that distinguishes it from disclosure items specified, defined or determined under an RI's GAAP and in a way that is not misleading. For example, the label "cash flow from operations" may cause confusion or may be misleading as it is not distinguishable from the GAAP Measure "cash provided by operating activities" used by the RI in the statement of cash flows.

Ensure consistent labelling of NGMs is used throughout all continuous disclosure documents as the use of inconsistent labelling is confusing and could lead to misleading disclosure. For example, throughout the illustrations in the Report the NGMs are continuously referred to with the same label.

USEFULNESS

A clear statement should be included, discussing how a particular NGM is used by management and why it provides useful information to investors; the statement should not merely itemize the components of the NGM. As seen in the below illustration, the RI discloses why the NGM is used by management and why it is useful to investors, which is supported by the disclosure of the starting point for each NGM and the components of the reconciliation. For example, the adjusted EBITDA NGM is used by management to evaluate operating performance as the measure excludes items that are not related to ongoing operations. Given this, it is reasonable that the reconciliation starting point is from the GAAP Measure "Net Income (Loss)".

Further, we question the usefulness of multiple NGMs being used for the same purpose. For example, we would question the purpose of including an operating netback, corporate netback and adjusted funds flow all with the same explanation of usefulness.

RECONCILIATION

The starting point of the reconciliation should be from the most directly comparable GAAP Measure, which aligns with the above stated usefulness. The reconciliation should not include any significant variations in composition caused by inappropriate exclusion or inclusion of certain items. We may consider it misleading when the measure excludes charges but does not exclude gains of a similar nature or the adjustments are inconsistent with the stated usefulness. Ensure that the NGM adjustments are not described as non-recurring, infrequent or unusual, when a similar loss or gain is reasonably likely to occur within the next two years or occurred during the prior two years. For example, in the illustration below, the NGMs have been adjusted for severance costs and health and safety costs as it was determined that these costs are non-recurring. Whereas, the $1.7 million loss on disposal of property was not adjusted for in the calculation of Adjusted EBITDA as it was determined to be part of normal course of operations and management of SampleCo uses this measure to evaluate ongoing operating performance. As discussed above, the adjustments made to NGMs must be aligned with the entity specific usefulness of the measure, the adjustments made in the below example are included for illustrative purposes and may not be applicable for every RI.

Overall, we encourage RIs to assess the number of NGMs that they are presenting to determine if they are all relevant and ensure that they are accompanied with the appropriate disclosures, as set forth in SN 52-306.

ILLUSTRATION

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and are therefore considered non-GAAP measures. These measures, which are derived from information reported in our financial statements, may not be comparable to similar measures presented by other companies.

ADJUSTED EBITDA

Adjusted EBITDA is defined as net income (loss) adjusted for income taxes, finance costs, depletion and depreciation and certain other non-cash items and other non-recurring and/or non-operations related items. Management believes this is a useful measure in evaluating our ongoing operating performance. Further, adjusted EBITDA is used to calculate a financial covenant on the credit facility agreements. Readers are cautioned that adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indicator of our performance. The following table provides a reconciliation of net income (loss), as disclosed in the statements of net income (loss) and comprehensive income (loss), to adjusted EBITDA:

	Year ended	
	December 31, 2020	December 31, 2019
Net Income (Loss)	(23,231)	4,827
Income tax expense (recovery)	(2,275)	(3,077)
Income (Loss) before income taxes	(25,506)	1,750
Finance costs	7,820	8,120
Depletion and depreciation	33,265	38,651
Severance costs[1]	800	–
Health and safety costs[2]	500	–
Adjusted EBITDA	16,879	48,521

(1) Staffing levels were reduced to align with a lower level of capital spending and improve overall cost efficiencies; resulting in a severance cost being incurred. Additional severance costs are expected in Q1 2021, although the majority of these costs have already been incurred.

(2) As a result of public health directives, we implemented safety measures to ensure the safety of our employees. These costs include the cost of reconfiguring certain workspaces in the head office, including the installation of physical barriers where safe physical distancing cannot be observed as well as additional IT hardware costs to accommodate our employees that are working from home. We also incurred additional costs related to personal protective equipment for employees working on site as well as additional cleaning supplies for more frequent cleanings of high touch surfaces ($0.1 million), these costs have not been included in the above figure as they are expected to recur until physical distancing measures are no longer recommended.

ADJUSTED FUNDS FLOW

Adjusted funds flow is defined as cash flow from operating activities, excluding changes in non-cash working capital and severance costs. Management believes this is a useful measure that provides a more complete understanding of our ability to generate cash flow necessary to finance capital expenditures and meet our financial obligations. The following table provides a reconciliation of cash flow from operating activities, as disclosed in the statements of cash flows, to adjusted funds flow:

	Year ended	
	December 31, 2020	December 31, 2019
Cash provided by operating activities	38,957	60,955
Changes in non-cash working capital	(10,254)	(16,025)
Severance costs[1]	800	–
Health and safety costs[2]	500	–
Adjusted Funds Flow	30,003	44,930

(1) Staffing levels were reduced to align with a lower level of capital spending and improve overall cost efficiencies; resulting in a severance cost being incurred. Additional severance costs are expected in Q1 2021, although the majority of these costs have already been incurred.

(2) As a result of public health directives, we implemented safety measures to ensure the safety of our employees. These costs include the cost of reconfiguring certain workspaces in the head office, including the installation of physical barriers where safe physical distancing cannot be observed as well as additional IT hardware costs to accommodate our employees that are working from home. We also incurred additional costs related to personal protective equipment for employees working on site as well as additional cleaning supplies for more frequent cleanings of high touch surfaces ($0.1 million), these costs have not been included in the above figure as they are expected to recur until physical distancing measures are no longer recommended.

COVID-19 DISCLOSURE CONSIDERATION

RIs are cautioned about making adjustments or using alternative profit measures defined as COVID-19 related. Not all COVID-19 effects are non-recurring and there may be a limited basis for management to conclude that a loss or expense is non-recurring, infrequent or unusual. This includes where the impact of COVID-19 crosses over multiple reporting periods. It could be misleading to describe an adjustment as COVID-19 related if management does not explain how the adjusted amount is specifically associated with COVID-19.

F. OTHER COVID-19 DISCLOSURE CONSIDERATIONS

We continue to monitor how RIs are disclosing the effects and risks of COVID-19 in their continuous disclosure documents. We encourage RIs to provide disclosures that allow investors to evaluate the current and future impact of COVID-19 through the eyes of management and to proactively revise and update disclosures as facts and circumstances change. Throughout this Report we have included COVID-19 disclosure considerations for RIs. The following are additional items not discussed elsewhere that RIs should also consider:

- The level of uncertainty around the future economic outlook caused by COVID-19 should be considered by RIs when making accounting estimates and performing their going concern assessments. Ensure disclosures around accounting estimates and going concern reflect management's assessments and are entity-specific.

- As a result of the changing environment, RIs may have changed their financial reporting processes. These changes may include how controls operate or can be tested and if there is any change in the risk of the control operating effectively in a remote work environment. If the changes made materially affect, or are reasonably likely to materially affect, an RIs internal controls over financial reporting (**ICFR**), such changes must be disclosed in the MD&A for the period in which they occurred.

- Tailoring cyber security measures as a result of remote work arrangements and disclosing any cyber security risks and cyber attacks .

- If a rent concession was received as a direct consequence of COVID-19, apply the amendments in IFRS 16 *Leases*, which became effective for annual reporting periods beginning on or after June 1, 2020. The International Accounting Standards Board summarizes these amendments as follows: "*The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors*".

- Assess for material events that occurred after the end of the reporting period, but before the financial statements were issued, and consider whether the recognition of adjusting events or disclosure of subsequent events in the financial statements and known trends or uncertainties in the MD&A is required.

The considerations presented in this Report are illustrative but not exhaustive and each RI will need to carefully assess COVID-19's impact and related material disclosure requirements. For additional resources on regulatory insights on the impact to COVID-19 refer to https://www.albertasecurities.com/asc-response-to-covid-19.

3. Other areas

A. UNBALANCED AND PROMOTIONAL DISCLOSURES

While the vast majority of RIs provide fair and balanced descriptions of their business activities and future prospects, some RIs choose to push the limits of good disclosure practices. Doing so can lead to unbalanced or promotional statements, or even worse, misleading or untrue disclosure. Problematic disclosures tend to be found in news releases, MD&As, investor presentations and social media. These statements may be discovered by ASC staff as part of our CD review program or by receiving a complaint from the public, triggering an IOR.

Examples of promotional disclosures that may be potentially misleading to an investor include:

- presentation of an early-stage business plan with unwarranted certainty of financial return, or unsupported assertions about growth of markets or demand for a product;
- declaration of expected market share of an industry, despite the RI being a new entrant into the market and yet to earn revenue; and
- announcement of a positive event, such as a letter of intent for an acquisition, then subsequently changing or cancelling the transaction with no follow-up announcement and explanation.

Depending upon the severity of the matter, the problematic disclosure may result in enforcement action or other regulatory responses such as requiring an RI to:

- issue a clarifying news release;
- retract or remove overly promotional language from their disclosure record including their website and/or social media; and
- re-file continuous disclosure documents.

ASC staff take promotional disclosures very seriously and will consider compliance or enforcement action to protect investors and the integrity of our capital markets.

QUESTIONS TO ASK

To ensure that disclosure is fair and balanced, RIs should ask themselves the following questions:

- Have we openly reported bad news as well as good news?
- Is the purpose of the disclosure to provide material facts to investors? Or is the purpose to promote a purchase of stock?
- Does the discussion of future business opportunities focus only on positive outcomes? Are the underlying risks and possible negative outcomes of the opportunities analyzed?
- If the disclosure is forward-looking in nature, have the requirements of Parts 4A and 4B of NI 51-102 been addressed? (Refer to the "Forward-Looking Information" section of this Report above)

B. DISCLOSURE OF KEY JUDGEMENTS AND ESTIMATES

The preparation of financial statements is complex and RIs are often required to make judgements and estimates that may materially affect their reported operating results and financial position. ASC staff expect that this year may be particularly challenging for RIs as the COVID-19 pandemic and the current economic climate has created uncertainties that management may have not considered in past reporting years. For these reasons, RIs should ensure that they devote a sufficient amount of time and focus to the disclosure of key judgements and estimates. Clear and transparent disclosure in these areas will enable investors to better understand how judgements and estimates have affected RI's results, as well as how sensitive they may be to changes in assumptions.

WHAT IS THE DIFFERENCE BETWEEN A JUDGEMENT AND AN ESTIMATE?

We have observed that the terms judgement and estimate are often not well understood and are used interchangeably or incorrectly as RIs are required to exercise their judgement when arriving at an appropriate estimate. IAS 1 *Presentation of Financial Statements* (**IAS 1**) draws a distinction between these two terms as different disclosure requirements are prescribed for each, making it important for RIs to have a clear understanding of what their material judgements and estimates are and the difference between the two.

An estimate involves an assumption about the future or when there is estimation uncertainty due to subjectivity around key factors and assumptions. Whereas, IAS 1.122 states that a judgement explicitly excludes areas that involve estimations.

Examples of judgements may include:

- the decision to consolidate an entity or not
- lease classification
- determination of cash generating units
- classification as a business combination or asset acquisition
- revenue recognition involving multiple element arrangements
- classification of a joint arrangement structured through a separate entity as a joint operation or a joint venture
- determination of the entity's functional currency and the functional currency of its subsidiaries

Examples of estimates may include:

- discount rate used in an impairment calculation
- forecast of future profits supporting the recognition of a deferred tax asset
- measurement of pension obligations
- future selling prices used in estimating the net realizable value of inventory
- provisions subject to the future outcome of a litigation in progress

WHEN IS DISCLOSURE REQUIRED?

Management is required to make several judgements and estimates in the preparation of its financial statements; however, IAS 1 provides clarification that disclosure of each of these judgements and estimates is not required. Disclosure should be specific to those judgements that have the most significant effect on the amounts recognized in the financial statements and those estimates that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This would typically include the estimates that require management's most difficult, subjective or complex judgements as well as estimates that require a number of variables and assumptions as this tends to make them more subjective and complex thereby increasing the significant risk associated with these estimates.

By disclosing only the significant judgements and estimates used by management as opposed to all judgements and estimates it allows investors to focus on those that have the most significant effect on the amounts recognized in the financial statements or where there is a significant risk of material adjustment to the carrying amounts of assets or liabilities within the next year. For example, some RIs identify revenue recognition as a significant judgement even when their revenue generating process is straightforward.

WHAT DISCLOSURE IS REQUIRED?

For judgements, IAS 1.122 requires RIs to disclose the specific judgements that management has used in the preparation of the financial statements. We remind RIs that it is important to provide entity specific disclosure in a manner that enables investors to understand the impact these judgements have on the financial statements and the basis for management's determination including criteria/factors/rationale that support the judgement.

For estimates, IAS 1.125 requires disclosure of the specific assumptions that management makes about the future and other major sources of estimation uncertainty at the end of a reporting period. This includes information about the nature of the assumption or estimation uncertainty as well as information about the nature of the assets and/or liabilities that are impacted by these estimates, including the carrying value at the end of the reporting period. The nature and extent of information disclosed by the RI will vary for each estimate; however, to ensure that clear, comprehensive disclosure is being provided, RIs should consider disclosing the following:

- the sensitivity of the carrying amount of the underlying asset or liability to changes in the methods, assumptions and estimates underlying the calculation, including the reasons for the sensitivity (e.g. if the discount rate were to change by X%, this would result in a $X change in the provision);
- the expected resolution of the uncertainty, and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected;
- an explanation of the changes made to past assumptions, if the uncertainty remains unresolved.

We remind RIs that that the commentary above is specific to the disclosure requirements contained in IAS 1, but that there are several other standards that also contain disclosure requirements around estimates and judgements that are not discussed above. For example IFRS 12 *Disclosure of Interests in Other Entities* requires RIs to disclose the judgements they make in determining whether they control another entity and IFRS 13 *Fair Value Measurements* requires RIs to disclose the significant assumptions and inputs used in the measurement of assets and liabilities that are carried at fair value.

Conversely, we remind RIs that the inclusion of disclosures around estimates and judgements in other standards does not preclude the requirements in IAS 1 from applying. For example, IAS 36 *Impairment* does not prescribe disclosure requirements if an RI has performed an impairment assessment on their property, plant and equipment and determined there is no impairment. However, for many RIs the impairment process entails their most difficult, subjective and complex judgements and estimates and they should consider if this would trigger the disclosure requirements in IAS 1, as discussed above. For example, we would expect IAS 1 disclosure to be provided in instances where the recoverable amount calculated by the RI is not significantly higher than the carrying value, such that a reasonably likely change in an assumption (e.g. a change in the discount rate used) would result in a material impairment being recorded.

ASC staff anticipate a focus area of our 2021 review program will be the disclosure of estimates and judgments as required under IAS 1 as well as those required under other standards such as IAS 36 *Impairment*.

QUESTIONS TO ASK

- Have we considered all of the key judgements and estimates used in preparing the financial statements? Does our disclosure clearly distinguish between the two and focus only on those that are most significant?
- Is our disclosure entity specific and does it contain sufficient information for investors to understand the impact that key judgements and estimates have had on our reported operating results and financial position?
- Are internal or external experts required in the preparation or review of our key estimates and judgements? If yes, have we planned to engage with them early in the financial reporting process?
- Is our disclosure entity specific and not simply a duplication of our peers with no regard to the relevance and significance to our entity?
- Did we review our disclosure with fresh eyes this reporting period and not simply duplicate the previous year's disclosure without considering if it's still significant and/or applicable?
- Do our disclosures appropriately alert investors to the potential effect of the estimates we have made on the carrying value of our assets and liabilities, including sensitivity disclosures where appropriate?

C. MERGERS AND ACQUISITIONS

In the current low commodity price environment, some RIs may determine that it is more economical to gain reserves through business acquisitions of other oil and gas producers rather than through capital expenditures spent on oil and gas reserve discovery. RIs may also seek economies of scale through mergers and acquisitions (**M&A**). Given this emerging trend, ASC staff have identified some disclosure best practices for RIs to consider when disclosing the potential plans for, or the final results of, an M&A transaction:

- ***Effect on Overall Performance***
  RIs are required to discuss the effect of any acquisition or disposition as part of their analysis of financial condition and results of operations, as outlined under sections 1.2 – 1.4 of Form 51-102F1. To enhance transparency, the RI should discuss the qualitative and quantitative characteristics of the transaction. For example, clearly discuss and quantify the organic growth of the RI as well as the amount of growth directly attributed to the acquisition or disposition. Further, the RI should identify and discuss any offsetting changes in operations, such as a decrease in production from shut-in wells and the new production from the acquired assets.

- ***Proposed Transactions***
  When it is probable that the RI will proceed with the proposed transaction, section 1.11 of Form 51-102F1 requires the RI to disclose the expected effect of the proposed transaction on its financial condition, financial performance and cash flows.

- ***Balanced Disclosure***
  In explaining the reasons for the M&A transaction, the expected benefits or synergies of the transaction must be balanced with the potential risks. For example, an RI may have the tendency to highlight synergies and other expected benefits of an M&A transaction (e.g. a reduction of G&A costs per barrel of production), while ignoring or downplaying the risks (e.g. that expected synergies may be delayed or realized in a lesser amount than initially expected).

- ***News Releases***
  News releases announcing an M&A transaction may include the projection of certain key performance indicators following the transaction. Examples of this type of disclosure could be "the combined entity is expected to generate over $345 million in free funds flow in 2021" and "we expect our improved free cash flow and lower debt will result in year-end debt / adjusted EBITDA of 1.7x for the year-ending 2021". These passages include both FLI (i.e. the future results expected for 2021) and NGMs (i.e. the free funds flow and adjusted EBITDA measures). As discussed above, FLI and NGM disclosure included in news releases require specific disclosures, as outlined in Parts 4A, 4B of NI 51-102 and SN 52-306, respectively.

- ***Material Change Report***
  An M&A transaction may be considered a material change which requires the filing of a material change report (**MCR**) on SEDAR. A MCR must be filed as soon as practicable, and in any event within ten business days of the date on which the material change occurs, as outlined in Form 51-102F3 *Material Change Report*.

- ***Material Contract***
  An executed purchase and sale agreement for the M&A transaction may be considered a material contract. Such documents are required to be filed on SEDAR under section 12.2 of NI 51-102.

- ***Business Acquisition Report***
  Depending upon the significance of the completed acquisition, Form 51-102F4 *Business Acquisition Report* (**BAR**) may be required to be filed on SEDAR. Note that the BAR requirements have recently changed, with an effective date of November 18, 2020. Further information on changes to the BAR requirements is provided in the "Important Recent Staff Notices and Initiatives" section of this Report.

CONSIDERATIONS

Other items that RIs should consider are:

- The TSX requires its listed RIs to obtain security holder approval for any transaction if the number of securities issuable as payment exceeds 25% of the listed RIs outstanding securities. These security holder approvals typically require the RI to convene a security holder meeting and to mail and file an information circular with details of the matters to be voted upon.

- The TSXV requires its listed RIs to obtain security holder approval for any transaction for which at least 50% of the listed RIs assets or businesses are disposed of in a sale. These security holder approvals also typically require a security holder meeting along with the associated disclosures.

- If a proposed M&A transaction is between related parties, the RI should consider the requirements of Part 4 of MI 61-101.

- An RI's investor presentation often includes FLI, NGMs and other information about an M&A transaction that could be material to an investor's decision to invest. ASC staff expect any material information included in an investor presentation to also be included in the relevant MD&A, financial statements, news releases, information circulars and/or annual information forms.

4. Important recent staff notices and initiatives

NOTICE	DESCRIPTION	DATE OF PUBLICATION
CSA Multilateral Notice and Request for Comment 45-327 *Proposed Prospectus Exemption for Self-Certified Investors*	Request for public comment on a proposed new prospectus exemption, the Self-Certified Investor exemption, designed to help facilitate further access to capital for businesses in Alberta and Saskatchewan, while providing appropriate investor protection. The comment period expires on December 23, 2020.	November 20, 2020
CSA Multilateral Staff Notice 51-361 *Continuous Disclosure Review Program Activities for the fiscal years ended March 31, 2020 and March 31, 2019*	The notice outlines observations resulting from the CSA reviews of RIs' disclosures and provides additional relevant information not covered by this Report.	October 29, 2020
CSA Notice and Request for Comment - Proposed Amendments to National Instrument 45-106 *Prospectus Exemptions* and Related Companion Policy Relating to the Offering Memorandum Prospectus Exemption	Request for public comment on proposed amendments relating to the offering memorandum prospectus exemption. The proposed amendments set out new disclosure requirements for issuers that are engaged in "real estate activities", and issuers that are "collective investment vehicles". The amendments provide more certainty to these issuers as to what they must disclose, while providing better disclosure for investors. The comment period expires on December 16, 2020.	September 17, 2020
CSA Notice of Amendments to National Instrument 51-102 *Continuous Disclosure Obligations* and Changes to Certain Policies Related to the Business Acquisition Report Requirements	The amendments are aimed at reducing the regulatory burden imposed by the BAR requirements in certain instances, without compromising investor protection. The amendments: • alter the determination of significance for RIs that are not venture issuers such that an acquisition of a business or related businesses is a significant acquisition only if at least two of the existing significance tests are triggered; and • increase the threshold of the significance tests for RIs that are not venture issuers from 20% to 30%. The amendments came into force on November 18, 2020.	August 20, 2020

NOTICE	DESCRIPTION	DATE OF PUBLICATION
CSA Notice of Amendments to National Instrument 45-106 *Prospectus Exemptions* and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Related Companion Policies relating to Syndicated Mortgages	The amendments include changes to certain prospectus and registration exemptions available for the distribution of syndicated mortgages. The amendments come into force on March 1, 2021.	August 6, 2020
CSA Staff Notice 43-311 *Review of Mineral Resource Estimates in Technical Reports*	The notice presents the results of a review on the disclosure of mineral resource estimates in technical reports and provides guidance to mining issuers and qualified persons on how to improve their disclosure in this area.	June 4, 2020
CSA Notice of Amendments to National Instrument 44-102 *Shelf Distributions* and Related Companion Policy Relating to At-the-Market Distributions	The amendments streamline at-the-market (ATM) distributions in Canada, and reduce the regulatory burden for issuers, exchanges and investment dealers. The amendments codify the terms of relief that that had historically been required by issuers conducting ATM distributions of equity securities. The amendments came into force on August 31, 2020.	June 4, 2020
CSA Staff Notice 43-310 *Confidential Pre-File Review of Prospectuses (for non-investment fund issuers)*	The notice introduces a harmonized process for full reviews of prospectuses on a confidential pre-file basis for non-investment fund issuers.	March 5, 2020
CSA Notice and Request for Comment – Proposed National Instrument 45-110 *Start-up Crowdfunding Registration and Prospectus Exemptions*	The Proposed Instrument is intended to improve the harmonization of the regulatory framework for securities crowdfunding by start-ups and early stage issuers. The comment period ended on July 13, 2020.	February 27, 2020
CSA Second Notice and Request for Comment – Proposed National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure*, the Related Companion Policy and Related Proposed Consequential Amendments and Changes	The Proposed Instrument sets out disclosure requirements for non-GAAP financial measures, non-GAAP ratios, and other financial measures. In response to the feedback received the scope of the application of the Proposed Instrument was reduced and the disclosure requirements were simplified. The comment period ended on June 29, 2020.	February 13, 2020

NOTICE	DESCRIPTION	DATE OF PUBLICATION
ASC Notice 45-705 *Compliance with Investment Limits under the Offering Memorandum Prospectus Exemption*	The notice presents the results of a project examining issuer compliance with the investment limits laid out in Section 2.9(2.1)(b), Offering Memorandum of National Instrument 45-106 *Prospectus Exemptions*.	January 16, 2020
CSA Consultation Paper 51-405 *Consideration of Access Equals Delivery Model for Non-Investment Fund Reporting Issuers*	The Consultation Paper solicits views on the appropriateness of introducing an “access equals delivery” model in the Canadian market where delivery of a document is effected by the issuer alerting investors that the document is publicly available on SEDAR and the issuer’s website. The comment period ended on June 29, 2020.	January 9, 2020

5. Resources available

Listed below are some commonly used regulations to assist RIs in understanding the requirements and where to find them.

To keep up to date on recent and upcoming changes, please subscribe to our updates[1] or follow us on Twitter @ASCUpdates.

CONTINUOUS DISCLOSURE RULES	**NI 51-102**
Financial Statements	Part 4
Forward-Looking Information	Parts 4A & 4B
MD&A	Part 5
Business Acquisitions	Part 8
Material Contracts	Part 12
CONTINUOUS DISCLOSURE FORMS	
MD&A	Form 51-102F1
AIF	Form 51-102F2
BAR	Form 51-102F4
Executive Compensation	Form 51-102F6
Executive Compensation - Venture Issuers	Form 51-102F6V
INTERPRETATION AND GUIDANCE	
Understanding Interpretations of the NI 51-102 Rules	51-102CP
Disclosure Standards	NP 51-201
Non-GAAP Financial Measures	SN 52-306 (Revised)
Environmental Reporting Guidance	SN 51-333
Reporting of Climate Change-related Risks	SN 51-358
Corporate Governance Guidelines	NP 58-201
AUDIT COMMITTEE RULES	**NI 52-110**
Non-Venture Issuers	Form 52-110F1
Venture Issuers	Form 52-110F2
CORPORATE GOVERNANCE DISCLOSURE	**NI 58-101**
Non-Venture Issuers	Form 58-101F1
Venture Issuers	Form 58-101F2
CERTIFICATION OF DISCLOSURE	**NI 52-109**

(1) https://www.albertasecurities.com/news-and-publications/weekly-updates-web-page

6. Contact personnel and presentation

We welcome comments on this Report and other Corporate Finance matters. Comments may be directed to any of the individuals listed below:

Nicole Law
Securities Analyst, Corporate Finance
Nicole.Law@asc.ca

Jay Mitchell
Securities Analyst, Corporate Finance
Jay.Mitchell@asc.ca

Rebecca Moen
Securities Analyst, Corporate Finance
Rebecca.Moen@asc.ca

Anthony Potter
Manager, Corporate Disclosure and Financial Analysis, Corporate Finance
Anthony.Potter@asc.ca

Tim Robson
Manager, Legal, Corporate Finance
Timothy.Robson@asc.ca

Tom Graham
Director, Corporate Finance
Tom.Graham@asc.ca

UPCOMING PRESENTATION

An information webinar related to this Report and other topics is being planned for January 2021. Anyone who would like to attend this webinar can sign-up for a notification of the presentation date and submit topics or questions they would like us to address by sending an email to cf-report@asc.ca. Information about future seminars and webinars can be found on the ASC website at https://www.albertasecurities.com/news-and-publications/events.

GLOSSARY OF TERMS

The following terms have the meanings set forth below unless otherwise indicated. Words importing the singular number include the plural, and vice versa.

"AIF" means Annual Information Form, specifically, a completed Form 51-102F2 *Annual Information Form* (**Form 51-102F2**).

"ASC" means the Alberta Securities Commission.

"BAR" means Business Acquisition Report, specifically, a completed Form 51-102F4 *Business Acquisition Report*.

"CD" means continuous disclosure.

"CSA" means the Canadian Securities Administrators.

"FLI" means Forward-looking Information, as that term is defined in National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**).

"GAAP" means generally accepted accounting principles.

"IFRS" means the standards and interpretations adopted by the International Accounting Standards Board, as amended from time to time.

"IPO" means an initial public offering.

"Issuer" - Sections 1(cc) and 1(ccc) of the *Securities Act* (Alberta) provide the definition of issuer and reporting issuer (**RI**) respectively. Although most of this report is directed towards Alberta RIs, certain securities legislation addressed in this report applies to all issuers including RIs, in these instances "issuer" has a specific meaning in application and reference. The report refers to RI unless use of the term issuer is necessary to make the distinction.

"MCR" means Material Change Report, specifically, a completed Form 51-102F3 *Material Change Report* (**Form 51-102F3**).

"MD&A" means Management's Discussion and Analysis, specifically, a completed Form 51-102F1 *Management's Discussion & Analysis* (**Form 51-102F1**).

"NGM" means Non-GAAP Financial Measure as that term is described in CSA Staff Notice 52-306 (Revised) – *Non-GAAP Financial Measures*.

"SEDAR" has the same meaning as in National Instrument 13-101 *System for Electronic Document Analysis and Retrieval*.

"SEDI" means System for Electronic Disclosure by Insiders.

ALBERTASECURITIES.COM

CHECKFIRST.CA

SUITE 600, 250-5TH ST. SW, CALGARY, ALBERTA, T2P 0R4